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Sharing knowledge, experiences, and innovations in public-private partnerships in infrastructure

Water operators from emerging markets

New players for public-private partnerships

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In the 1990s a few multinationals dominated the market for public-private partnership (PPP) contracts in water. Yet in recent years water operators from developing countries have won most of the new PPP contracts for the management of water utilities in countries as diverse as Brazil, Cameroon, Chile, China, Colombia, India, Malaysia, and the Russian Federation. While the size of the market served by large foreign operators has remained stagnant since 2001, the population served by private operators from developing countries grew from 15 million to more than 70 million—or 40 percent of the market—by 2008. This big shift opens new perspectives on using PPPs as a tool to reform water utilities in the developing world.

During the 1990s a few European operators dominated the management of water utilities under public-private partnership (PPP) arrangements. Indeed, by 2001 just six accounted for 85 percent of the population served under PPP contracts in developing countries. While this situation was a natural consequence of private operation of water utilities being a new phenomenon in most countries, it also raised concern that this was an oligopolistic market. Recent years have seen a big change, however, with growing participation by new private operators from emerging-market and developing countries.

A surge since 2001

A comprehensive review of water PPPs in the developing world found that the population served by these new players steadily increased between 2002 and 2007, growing by an additional 55 million people and to about 40 percent of the market (Marin 2009). Meanwhile, the market for international operators remained stagnant, at

about 100 million people served. Local private operators were awarded more than 80 new PPP contracts for water utilities between 2001 and 2008 and have accounted for almost all market growth since 2001 (figure 1).

This trend was confirmed in 2008: six of the seven new PPPs awarded for water utilities went to national private operators (in Brazil, China, India, and the Russian Federation). Private water operators from developing countries now serve more than 70 million people through large PPP contracts.¹

First appearing in the late 1990s

Governments involved in the development of water PPP contracts faced a typical “chicken and egg” challenge: they were often unwilling to let local investors without previous experience take over the management of their water utilities, yet this prevented the development of new players. The door to local private sector involvement in the business of operating water utilities has been opened gradually and in diverse ways.

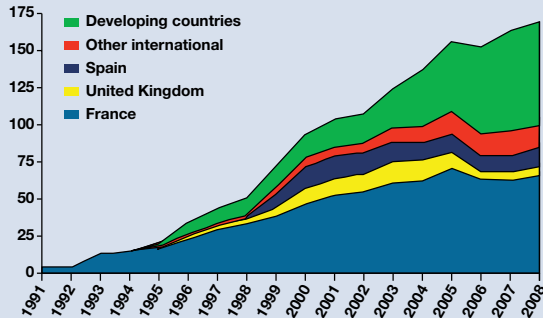
The two Manila concessions were awarded in 1996. Because Philippine law required that national investors own 60 percent of the shares of the concessionaires, foreign operators had to give majority control to local partners. While the Western concession was marred by difficult rela-

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FIGURE 1

Private operators from developing countries are serving a rapidly growing share of the market
 Urban population served by private water operators in developing countries, by operators' country of origin, 1991–2008 (millions)



Source: Marin 2009, updated with 2008 data.

tionships between the foreign and local partners (leading to a temporary government takeover in 2005), the partnership in the Eastern concession worked out well. The foreign operator transferred know-how, leading to the emergence of a competent Philippine private water operator (Manila Water).

In Latin America national investors started by taking on projects left aside by large foreign operators. In Argentina, Thames Water sold control of the Corrientes concession in 1995, and in ensuing years Argentine investors won several tenders for provincial concessions (in Salta, Santiago del Estero, Formosa, and La Rioja). A similar phenomenon started in Colombia and Brazil in 1998–99. Construction companies were awarded PPP contracts following tenders in which only local investors participated. In all these cases prequalification criteria were eased to increase competition while various mechanisms were used to ensure that the winning bidder would be able to operate the water utility. In Colombia the winning bidders contracted experienced technical staff from public utilities. In Argentina the investors that won the Salta concession signed a technical assistance contract with an established public water utility (Sanepar, the state water utility of Paraná, Brazil).

Gaining ground in Latin America

National private operators gained ground in Latin America after 2000 as the initial experiences with them proved encouraging and foreign operators were partially withdrawing from the developing world. In Colombia in 2001–04, national investors won almost all the PPP contracts awarded

for municipal water utilities. In Chile during the second wave of PPPs in 2002–04, local investors purchased all eight regional utilities on offer. Latin American investors kept increasing their market share in 2005–06 by taking over several existing contracts from international operators leaving the region. And in Brazil in 2007–08, national private operators won all six new contracts awarded.

Large groups in Russia and Asia

In other regions powerful private groups have entered the market, often through directly negotiated deals. In Russia private operation of water utilities started in 2003. Two big national operators linked to powerful energy groups have emerged, RCS and Rosvodokanal, and now serve more than 7 million people (table 1). In Malaysia the two concessions for Johor state (2001) and Selangor state and Kuala Lumpur (2004) were sold to national groups. In India, Tata used its water utility operation in Jamshedpur (the birthplace of its steel mill business in the 19th century) as a base for business expansion, and in 2008 won a management contract for the water utility of the city of Mysore. In the Philippines a consortium combining two major national construction and property conglomerates took over the Western concession in Manila in 2006, following the bankruptcy of the former concessionaire and a short time under public management.

China has become the fastest growing market for private water operators. After the ban on foreign investors' managing water utilities was dropped in 2002, many PPP contracts were signed between local authorities and private consortia made up of both an international operator and Chinese investors. These investors include big Hong Kong (China) firms as well as state-owned conglomerates such as Beijing Capital and Shanghai Industrial. China is now starting to see prominent deals involving Chinese investors only (such as Hong Kong & China Gas).

Consolidation and regional expansion

Over the years many private water operators from developing countries have consolidated their activities under several contracts to become significant players. Colombia now has seven national private water operators that each serve at least 250,000 people through a combination of municipal contracts. One is Conhydra, which operates in 10 towns in the department of Antioquia, serving a population of about half a million. In Brazil, Aguas do Brasil has concentrated its development

Local private operators have accounted for almost all market growth since 2001

TABLE 1 Operators from developing countries with PPP contracts serving more than 250,000 people

Country	Operator	Start year	Main areas under PPP contracts	People served, 2008 (estimated) ^a
Argentina	Roggio	2006	Córdoba	1,300,000
	Latinaguas	1996–98	Corrientes and La Rioja provinces, Tumbes (Peru) (lost Salta in 2009)	1,200,000
	Sagua (Southwater)	1995–97	Formosa and Santiago del Estero provinces	600,000
Brazil	Aguas do Brasil (Queiroz Galvão)	1999	Campos, Niterói, Petrópolis, Nova Friburgo, Resende, Araruama, and 2 other towns (Rio de Janeiro state); Araçoiaba (São Paulo state)	1,600,000
	Vega	2006	Manaus	1,400,000
	Bertin-Equipav	2005	Campo Grande, Itu, Cabo Frio, Búzios, and 3 other towns (Prolagos)	1,200,000
	Odebrecht	2003	Mauá (sewerage), Limeira, Rio Claro, Rio das Ostras (sewerage), Itapemirim	1,000,000
	Saneatins	1999	Tocantins state	900,000
Chile	Fernandez Hurtado	2003	ESSCO regional utility (Coquimbo)	500,000
	Luksic	2003	ESSAN regional utility (Antofagasta)	500,000
	Hidrosan	2003	EMSSAT (Atacama) and EMSSA (Aycen) regional utilities	300,000
China	Hong Kong & China Gas	2005	Wujiang, Wuhu, Suzhou	2,800,000
	China Water Affairs	2006	Xinyu, Jinzhou, Gaoan	2,300,000
	Inter-China Holdings	2007	Hanzhong	300,000
	China Water Industries	2007	Danzhou	250,000
Colombia	Triple A ^b	1997	Barranquilla, Santa Marta, Soledad, and 11 other towns (Atlantico department)	2,700,000
	Aguaskpital	2006	Cúcuta	700,000
	Conhydra	1998	Buenaventura, Turbo, Marinilla, and 7 other towns (Antioquia department)	500,000
	Grupo Sala	2003	Sincelejo, Corozal	250,000
	Aguas de la Guajira	2002	Calarcá, El Banco, Riohacha, Ponedera	250,000
	Servaf	1997	Florencia and 6 other towns	250,000
	Uniaguas	2004	Sahagún, Cereté, and 2 other towns (Córdoba department)	250,000
India	Tata Group	2008	Jamshedpur (since 19th century), Mysore	1,400,000
Indonesia	PT Aetra Air (Acuatico)	2006	Jakarta Eastern zone, Tangerang area	3,200,000
Malaysia	Puncak Niaga	2004	Kuala Lumpur, Putrajaya, and Selangor state	6,500,000
	Ranhill	2001	Johor state	3,000,000
	Salcon	2004	Linyi (China)	1,000,000
Morocco	ONEP ^c and Delta Holding	2007	Cameroon (national utility)	3,000,000
Philippines	DMCI–Metro Pacific	2006	Manila Western zone	6,000,000
	Manila Water (Ayala)	1996	Manila Eastern zone	5,000,000
Russian Federation	Rosvodokanal (Alfa Group)	2003	Orenburg, Krasnodar, Tyumen, Kaluga, Barnaul, Omsk, Tver, Lugansk (Ukraine)	5,000,000
	RCS	2003	Kirov, Perm, Tambov, Blagoveshtensk, Petrozavodsk	2,200,000
	EWP (Evraziyskiy)	2005	Omsk, Rostov, Sochi, Krasnodark	1,900,000
Singapore	Asia Water Technology	2008	Huangpi and Wuhan (sewerage; China)	1,200,000
South Africa	Rand Water and Vitens (Netherlands) ^c	2005	Ghana (national utility)	5,000,000
	WSSA	1992	Queenstown, Maluti	600,000

Many private water operators from emerging markets have become significant players

Source: World Bank and PPIAF, Private Participation in Infrastructure (PPI) Database; authors' calculations.

Note: Excludes Russian water utilities operated under joint-stock ownership schemes with private investors.

a. Estimated on the basis of the number of active connections.

b. Triple A has a partnership with the Spanish public utility Canal Isabel II from Madrid but is run as a private Colombian entity.

c. Utilities are publicly owned but operating under the PPP contracts as private entities outside their home country.

in the state of Rio de Janeiro, where it now serves about 1.6 million people through six municipal concessions.

Some of the new players are even taking a regional view of the market. Argentine operator Latinaguas won a water concession for the city of Tumbes, Peru, in 2005. Rosvodokanal, the largest Russian water operator, signed a contract in 2008 to run the water utility in Lugansk, Ukraine. In Asia, Malaysian and Singapore firms have started to expand in China, and Manila Water won a large performance-based contract in Ho Chi Minh City, Vietnam, in 2008.

In a parallel move a few publicly owned water utilities from developing countries are expanding their activities through PPP contracts outside their home country—contracts under which they operate as private entities.² ONEP from Morocco won a 10-year affermage contract to operate the national water utility of Cameroon in 2007, while Rand Water from South Africa (in partnership with Vitens from the Netherlands) has been operating Ghana’s national utility under a management contract since 2005.

Performance record

Several of the private operators from developing countries have a good track record. In Colombia, Conhydra made remarkable progress in reducing water rationing, starting from highly deteriorated infrastructure. In Brazil, Aguas do Brasil and Saneatins have together provided access to piped water to more than a million people. In the Philippines, Manila Water has become a success story, enabling more than 3 million people to gain access to piped water, reestablishing continuous service, and reducing water losses from 52 percent to less than 30 percent.

One advantage of local private operators may be their ability to mitigate political risks because of their greater knowledge of local culture and needs. While the overall rate of early termination for water utility PPPs is 9 percent, the rate for those involving a developing-country operator is less than 3 percent. Yet local operators are not necessarily a

panacea. Their performance in such countries as China, Malaysia, and Russia remains to be evaluated. In Argentina the Salta concession operated by Latinaguas was terminated in 2009. And the largest contract awarded so far to a national private operator—the concession for Kuala Lumpur and Selangor state in Malaysia—has lately been under threat of nationalization, with concern about lack of tariff transparency.

Looking forward: more competition

Private water operators from developing countries are now found on all continents, and as many as 36 serve at least 250,000 people each. All water PPPs in Brazil (serving 7 million people) are now run by national operators; so are those in Malaysia and Russia. Management of water utilities is now attracting emerging-market heavyweights such as construction giants Queiroz Galvão and Odebrecht (Brazil) and industrial conglomerate Tata (India).

The growing importance of local operators is admittedly still an incipient trend, and it follows a different dynamic in each country. Moreover, the nationality of private investors is not always easy to track in a global economy. And local investors entering the water PPP business are a diverse mix. Several are involved with just one utility, and a few have exited the market (as occurred in Chile) or may do so in the future. Some are bound to fail or to lose contracts—a normal occurrence in a market economy. It may be too early to see the full impact of the trend. Yet the momentum is there, driven by governments’ interest in finding ways to improve water services for their people and by the dynamism of the private sector in developing countries.

Notes

1. This figure is an underestimate because it does not include most PPPs for water utilities in China (based on mixed control by an international operator and local investors), several utilities in Russia with joint-stock ownership, or state utilities (such as Sabesp in Brazil) that have sold a large portion of their shares to private investors. If these cases were added, the total population served would exceed 150 million.

2. These publicly owned companies operate outside their jurisdiction through local entities incorporated under private law, and act as the private counterpart under a public-private contract.

Reference

Marin, Philippe. 2009. *Public-Private Partnerships for Urban Water Utilities: A Review of Experiences in Developing Countries*. Trends and Policy Options Series, no. 8. Washington, DC: PPIAF.



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